

Message Text

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INFO OCT-01 IO-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02

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R 051850Z SEP 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2661

INFO AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

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E.O. 11652: N/A

TAGS: ELAB, GW

SUBJECT: CHANCELLOR SCHMIDT SEEKS DGB SUPPORT FOR
GOVERNMENT AUSTERITY PROGRAM

SUMMARY: CHANCELLOR SCHMIDT APPEARED BEFORE THE 135-MEMBER DGB EXECUTIVE COUNCIL IN DUESSELDORF SEEKING ACCEPTANCE FOR THE GOVERNMENT'S NEW AUSTERITY PROGRAM. THE TRADE UNIONISTS PROMISED A DETAILED REACTION TO THE CHANCELLOR'S PROGRAM AFTER THEY HAD AN OPPORTUNITY TO STUDY IT MORE COMPLETELY. HOWEVER, MOST INDICATIONS ARE THAT SCHMIDT CAN RELY ON AT LEAST TACIT SUPPORT FROM THE TRADE UNION LEADERSHIP BECAUSE THEY SEE MANY OF HIS MEASURES AS NECESSARY, AND BECAUSE THEY REALIZE THAT IT IS IN THEIR INTEREST TO RETURN THE SPD TO POWER NEXT YEAR. END SUMMARY.

1. ON SEPTEMBER 2, CHANCELLOR HELMUT SCHMIDT VISITED THE DGB IN DUESSELDORF TO PERSUADE THE DGB EXECUTIVE COUNCIL, THE HIGHEST DGB POLICY MAKING BODY BETWEEN THE DGB CONVENTIONS, TO ACCEPT THE GOVERNMENT'S AUSTERITY PROGRAM. IN A 90-MINUTE SPEECH, SCHMIDT GAVE A HISTORICAL ANALYSIS OF THE PRESENT ECONOMIC SITUATION, STRESSING THE INFLUENCE OF UNCONTROLLABLE INTERNATIONAL DEVELOPMENTS ON THE FRG, AND A DETAILED RATIONALE OF THE GOVERNMENT'S ECONOMIC PROGRAM.

2. THIS PROGRAM INCLUDES SEVERAL PROVISIONS WHICH DIRECTLY AFFECT LABOR INTERESTS INCLUDING RAISING UNEMPLOYMENT INSURANCE CONTRIBUTIONS FROM 2 TO 3 PERCENT OF A WORKER'S EARNINGS, EFFECTIVE JANUARY 1 NEXT YEAR. (THE RAISE WILL BE SHARED EQUALLY BY EMPLOYER AND EMPLOYEE.) THE VALUE-ADDED TAX WILL BE INCREASED FROM 11 TO 13 PERCENT, AND TAXES ON TOBACCO AND ALCOHOLIC BEVERAGES WILL BE RAISED EFFECTIVE JANUARY 1, 1977. CERTAIN FRINGE BENEFITS FOR GOVERNMENT EMPLOYEES WILL BE REDUCED, AND NEW RESTRICTIONS WILL BE PLACED ON THE SELECTION OF WORKERS FOR RETRAINING AND VOCATIONAL UPGRADING PROGRAMS SPONSORED BY THE FEDERAL EMPLOYMENT SERVICE. FOLLOWING HIS SPEECH, SCHMIDT ACCEPTED QUESTIONS FROM THE MEMBERS

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OF THE EXECUTIVE COUNCIL.

3. AT A PRESS CONFERENCE AFTER THE MEETING, THE CHANCELLOR CALLED THE DISCUSSION "FRANK AND OBJECTIVE", LEAVING IT TO DGB PRESIDENT VETTER TO COMMENT ON THE DGB'S REACTION. VETTER SAID HE WELCOMED THE COURAGE OF THE GOVERNMENT IN "REVEALING THE TRUTH" ABOUT THE ECONOMIC SITUATION. "WE PREFER TO KNOW ABOUT

TAX INCREASE PLANS BEFORE THE ELECTION RATHER THAN TO BE SURPRISED AFTER THE ELECTION." VETTER MADE IT CLEAR THAT THE DGB WILL WITHHOLD JUDGMENT UNTIL IT HAS HAD TIME TO FULLY EXAMINE THE GOVERNMENT'S PROPOSALS AND TO SUGGEST ALTERNATIVES. HE DID SAY, HOWEVER, A HARMONIZATION OF THE VALUE-ADDED TAX (VAT) IN THE EUROPEAN COMMUNITY WOULD MAKE IT NECESSARY TO RAISE THE VAT IN THE FRG. THE CHANCELLOR SAID THAT THE DGB'S PROPOSALS WILL BE TAKEN INTO ACCOUNT BY THE GOVERNMENT, AND EMPHATICALLY DENIED THAT HE WOULD SUPPORT WAGE CONTROLS OR GOVERNMENT INTERFERENCE IN FREE COLLECTIVE BARGAINING.

4. SCHMIDT ALSO DISCUSSED PARITY CODETERMINATION AND VOCATIONAL EDUCATION REFORM. HE INDICATED THAT LEGISLATION WOULD BE PASSED DURING THE 1975/76 BUNDESTAG SESSION BUT SAID THAT HE COULD NOT GUARANTEE

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THAT THE CODETERMINATION LEGISLATION WOULD PROVIDE THE PARITY CODETERMINATION DEMANDED BY THE DGB. IN ANY CASE, THE NEW LEGISLATION WOULD BE A MAJOR STEP FORWARD. HE COMMENTED FURTHER THAT THESE REFORM MEASURES DEPENDED ALSO ON THE ATTITUDE OF THE FDP AND THAT CERTAIN DIFFERENCES BETWEEN THE SPD AND THE FDP ON CODETERMINATION REMAIN UNRESOLVED.

5. THE CHANCELLOR'S VISIT APPARENTLY ACCOMPLISHED ITS PURPOSES. DESPITE SOME GRUMBLING, THERE WAS NO MAJOR OPPOSITION BY THE LABOR LEADERS TO THE GOVERNMENT'S PROGRAM. DGB LEADERS WERE FLATTERED BY SCHMIDT'S VISIT TO DUESSELDORF. THIS IS THE FIRST TIME THAT A GERMAN CHANCELLOR HAS DEMONSTRATED SO EMPHATICALLY HIS DESIRE FOR LABOR'S SUPPORT, OR AT LEAST UNDERSTANDING, FOR A GOVERNMENT PROGRAM. HOWEVER, DGB LEADERS HAD DECIDED BEFORE THE MEETING TO RESERVE JUDGMENT AND TO TRY TO DEFINE ALTERNATIVES MORE PALATABLE TO THE WORKERS RATHER THAN JOIN THE OPPOSITION IN OPEN CRITICISM OF THE GOVERNMENT.

6. ALTHOUGH THE DGB PROMISED TO STUDY THE AUSTERITY PROGRAM BEFORE REACTING, LABOR LEADERS HAVE ALREADY INDICATED THEIR REACTIONS TO SEVERAL OF THE GOVERNMENT'S PROPOSALS. ONE OF THE ALTERNATIVES SUGGESTED BY

THE DGB AFTER THE MEETING WAS TO SUBSTITUTE AN INCREASED TAX ON UPPER INCOME GROUPS FOR THE GOVERNMENT PROPOSAL TO INCREASE THE VALUE-ADDED TAX, WHICH BURDENS LOWER MORE THAN OTHER INCOME GROUPS. SOME DGB SOURCES INDICATE THAT THE RESULT MAY BE A COMPROMISE BETWEEN THE GOVERNMENT AND THE DGB. APPARENTLY THERE HAS BEEN NO DGB OPPOSITION TO THE PROPOSED INCREASES IN UNEMPLOYMENT INSURANCE TAXES OR IN INCREASED TAXES ON TOBACCO AND ALCOHOLIC BEVERAGES. HOWEVER, MANY DGB LEADERS FEEL THAT THE PAST ALLOWABLE TAX RATE FOR UNEMPLOYMENT INSURANCE HAS NOT BEEN FULLY UTILIZED WHICH WOULD HAVE BETTER PREPARED THE FEDERAL EMPLOYMENT SERVICE FOR THIS RECESSION.

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UNEMPLOYMENT IS TRADITIONALLY A SENSITIVE ISSUE IN GERMANY, AND DGB LEADERS ALSO INDICATED THAT EMPLOYED WORKERS WILL MAINTAIN THEIR TRADITIONAL SOLIDARITY WITH THE UNEMPLOYED BY STRENGTHENING THE FINANCIAL CAPABILITY OF THE UNEMPLOYMENT INSURANCE SYSTEM. IN ADDITION, MANY DGB LEADERS FEEL THAT REFORMS IN THE UTILIZATION OF UNEMPLOYMENT INSURANCE FUNDS, PARTICULARLY IN THE VOCATIONAL RETRAINING AREA, ARE LONG OVERDUE SINCE MANY OF THESE RETRAINING PROGRAMS HAVE BEEN MISUSED AND HAVE NOT MET THE ACTUAL NEEDS OF THE LABOR MARKET. DGB COUNCIL MEMBERS WERE ALSO HAPPY THAT HELMUT SCHMIDT CLEARLY REPUTIATED A WAGE FREEZE IN HIS PUBLIC STATEMENTS AFTER THE MEETING. THE PROPOSED GOVERNMENT RETRENCHMENT MEASURES TO REDUCE THE RATE OF INCREASE IN PUBLIC SERVICE EXPENDITURES MAY STRENGTHEN DGB DEMANDS FOR CIVIL SERVICE REFORM, SINCE MANY DGB LEADERS BELIEVE THAT THIS IS THE STRATEGIC TIME TO PRESS HARDER FOR ITS GOAL OF REPLACING THE PRESENT THREE-CLASS (BEAMTE, ANGESTELLTE, ARBEITER) CIVIL SERVICE SYSTEM WITH UNIFORM PERSONNEL REGULATIONS FOR THE CIVIL SERVICE. ON WAGE POLICY, DGB PUBLIC SERVICE UNION LEADERS ARE DELIBERATELY AVOIDING ANY STATEMENTS ON WAGE POLICY UNTIL ECONOMIC TRENDS BECOME CLEARER.

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7. COMMENT: OUR IMPRESSION IS THAT CHANCELLOR SCHMIDT'S MOVE HAS SUCCEEDED FOR THE TIME BEING IN WARDING OFF ANY SERIOUS LABOR OPPOSITION TO HIS AUSTERITY PROGRAM, AND THAT THE TRADE UNION LEADERS WILL TRY TO SUPPORT THE GOVERNMENT'S PROGRAM WITHIN THE LIMITATIONS OF THEIR ROLE AS THE DEFENDERS OF THE WORKERS' INTERESTS.

8. THE TACTICAL MOVES WITHIN THE TRADE UNION MOVEMENT WILL UNFOLD AS ECONOMIC TRENDS BECOME CLEARER. THE DGB WILL LIKELY PRESS HARDER FOR HIGHER TAXES FOR UPPER INCOME GROUPS AND FOR LONGTERM GOALS IN CIVIL SERVICE REFORM. HOWEVER, BOTH GOALS WILL BE DIFFICULT TO ACHIEVE, BECAUSE THEY ARE LIKELY TO BE RESISTED BY THE FDP MEMBERS OF THE GOVERNMENT COALITION. THE DGB IS ALSO LIKELY TO PRESS FOR GOVERNMENT ACTION ON THE CODETERMINATION BILL AS COMPENSATION FOR THEIR SUPPORT OF THE GOVERNMENT'S ECONOMIC PROGRAM. HOWEVER, THE GOVERNMENT ACTION IN THIS AREA ALSO WILL LIKELY BE DELAYED BY NEGOTIATIONS WITH THE FDP ON A SOLUTION OF THE PENDING PROBLEMS ON THE CODETERMINATION LEGISLATION.

9. IT IS NOT NOW POSSIBLE TO PREDICT HOW THE DGB WILL WEATHER THE STRAIN OF HAVING TO SUPPORT A SOCIALIST GOVERNMENT THAT CANNOT CARRY OUT A LABOR-ORIENTED PROGRAM IN AN ELECTION YEAR. THE FIRST DGB REACTION TO SCHMIDT'S PROGRAM WAS POSITIVE THOUGH RESTRAINED. THE DGB CLEARLY WISHES TO SUPPORT THE GOVERNMENT RATHER THAN TO SEE A TRIUMPH OF THE OPPOSITION. BUT SCHMIDT'S VISIT SHOWS HIS OWN AWARENESS THAT HIS PROGRAM WILL NOT FULLY PLEASE THE TRADE UNIONS.
HILLENBRAND

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